

P 131719Z MAR 09
FM AMEMBASSY BERLIN
TO SECSTATE WASHDC PRIORITY 3579
INFO EU MEMBER STATES COLLECTIVE PRIORITY
IRAQ COLLECTIVE PRIORITY
NATO EU COLLECTIVE PRIORITY
AMEMBASSY AMMAN PRIORITY
AMEMBASSY ANKARA PRIORITY
AMEMBASSY BAGHDAD PRIORITY
AMEMBASSY KUWAIT PRIORITY
WHITE HOUSE WASHINGTON DC PRIORITY
USEU BRUSSELS PRIORITY
SECSTATE WASHDC PRIORITY 3580
NSC WASHINGTON DC PRIORITY
DEPT OF TREASURY WASHINGTON DC PRIORITY
DEPT OF ENERGY WASHINGTON DC PRIORITY

C O N F I D E N T I A L BERLIN 000305

PLEASE PASS TO CHODGES, PSCHROEDER AT EUR/CE; GHICKS AT
EEB/OIA; LKOHLER AT TREASURY; JLEVINE AT COMMERCE

E.O. 12958: DECL: 03/12/2019
TAGS: [PREL](#) [ECON](#) [ETRD](#) [EINV](#) [EFIN](#) [GM](#) [IZ](#)
SUBJECT: GERMAN BUSINESSES "DUSTING OFF IRAQ FILE"

REF: A. 09 BERLIN 235
[1](#)B. 08 BERLIN 1044
[1](#)C. 08 BERLIN 1001
[1](#)D. 08 BERLIN 950

Classified By: Minister-Counselor for Economics Robert A. Pollard for r
easons 1.4 (b) and (d)

[1](#)1. (C) Summary: German Cabinet level efforts to resurrect Germany's historically strong business ties with Iraq, recent political and security developments in Iraq, and declining export opportunities elsewhere have boosted German businesses' interest in re-entering the Iraqi market. In a March 6 meeting, the new Economics Minister Karl-Theodor zu Guttenberg told the Charge' that he is considering a trip to Iraq later this year and is actively developing an Iraq policy. The opening of a Baghdad office by Daimler and recent deals signed by German multinational Siemens and MAN may pave the way for small and medium-sized German suppliers to tap the market. Germany has also opened both a Consulate General in Erbil and a business information office in Baghdad's Green Zone (REF A) during Foreign Minister Frank-Walter Steinmeier's recent visit. German companies already present in the Middle East, particularly those who built a network of contacts and expertise in Iraq during the 1980s, appear best poised to re-enter the market in the near term. Industry observers see little prospect for engagement on the energy front due to logistical challenges and perceptions that American companies have the best odds of profiting from this sector. Most observers predict that German exports are unlikely to reach their pre-sanctions levels, even a decade from now. However, small but measurable increases in German business activity are likely by the end of 2009. End Summary.

MFA SEES CHALLENGES IN RE-ENTERING MARKET

[1](#)2. (C) In his February 17-18 highly-publicized trip to Iraq, Steinmeier sent a clear political signal of support to the Iraqi government while encouraging German firms to re-enter the Iraqi market. Steinmeier's trip was hailed in the media and political circles as opening a new era in German-Iraqi trade relations. Steinmeier said he wants to support "democratic consolidation and peaceful reconciliation" in Iraq. However, Ministry officials remain skeptical about the actual commercial possibilities in the near term. MFA Director General for Economic Affairs Ruediger von Fritsch, who accompanied the Minister, reportedly told his staff upon his return that Baghdad

remains "a very dangerous place" despite reports of declining violence.

13. (C) In fact, the MFA's mood on Iraq remains sober. In a February 25 meeting, Volcker Berresheim, Head of the Ministry of Foreign Affairs' Foreign Commercial Relations Division, told EconOff that the German Embassy depicts an improving security climate in its reporting, yet the Ministry found security arrangements still too onerous to arrange or recommend meaningful business-related travel. In Berresheim's view, rampant short-term kidnappings, a "catastrophic" and corrupt public administration, and brain drain in many sectors will prevent German firms from re-entering the market in the near term. Berresheim said the trip fell short of ideal on a number of counts: first, MFA State Secretary Peter Ammon had to cajole German businesses into taking part in the trip; security arrangements restricted the size of the delegation (only seven business representatives took part); a bilateral investment agreement initialed by former Economics Minister Glos and Prime Minister Nour al-Maliki in July 2008 (REF B) remained unsigned because of unresolved terms; and German businesses were unable to meet with various Iraqi Ministers to discuss economic development concepts prepared by the MFA for Maliki's consideration because the Ministers were more interested in the ceremonial aspects of the visit than conducting business. He called the German Ministry of Economics' February 27 workshop in Berlin for companies interested in re-entering the market "a yellow press event" that reminded him of similar hype over German commercial interest in Kosovo.

ECON MINISTER URGES FIRMS TO RE-ENTER

14. (C) In contrast, the Economic Ministry sounds bullish about Iraq. Just two weeks into his new role, zu Guttenberg quickly established the Econ Ministry's continuing leadership on Iraq by inviting approximately 270 business representatives to a workshop on re-entering the market. (Note: His predecessor Michael Glos stole the limelight from Steinmeier with his surprise visit to Baghdad in July 2008; see REF B.) At the workshop, zu Guttenberg credited U.S. military and Iraqi forces with considerably improving the security situation. He told the German firms that "the stage was set for German industry to go in" and urged them to seize the opportunity. Zu Guttenberg pointed to Iraq's formerly robust business ties to both the Federal Republic of Germany and the German Democratic Republic and argued that current German exports in the range of 300 million euros annually were far below the market's potential. Zu Guttenberg also announced that Germany would sponsor a trade fair in Erbil in the fall of 2009. He said that Iraqi officials had expressed interest in cooperating with Germany in such sectors as power plants, chemicals, infrastructure, manufacturing, machine tools and agriculture. However, zu Guttenberg acknowledged that German firms still face difficulties such as Iraq's "Mesopotamian bureaucracy," corruption, a long stalled hydrocarbon law, the unsigned bilateral investment agreement, and an incomplete legal framework. On March 11, Ministry officials indicated that they expect to make good progress in coordinating zu Guttenberg's Iraq policy over the next two weeks.

CHANGING SENTIMENT

15. (C) Major industry organizations report that the political signals from German leaders, improvements in Iraq's security, and Maliki's strengthening hand are all encouraging German businesses to re-examine the market's potential. The German Chamber of Industry and Commerce's (DIHK) Felix Neugart, who will oversee the new business center in the Green Zone from Berlin, said, "I wanted to do something in Iraq for months, but it was blocked" by both DIHK's management and the Ministries (EconMin and MFA). He said

several German firms are now "dusting off their Iraq files," and that he is planning to facilitate business travel to Iraq later this year. Neugart said that he expects small but concrete progress in German business' re-engagement by the end of 2009. Asked about potential German involvement in the energy sector, Neugart said, "I heard that's American turf" and mentioned that one German firm had implied to him that the Iraqi Ministries' bidding processes were not fair and open to German firms. Neugart elaborated that American companies may have an advantage as they have the personal relationships necessary to win contracts and succeed in the energy sector.

¶6. (C) As before, German businesses are leaning toward the oil-rich, more secure North, but the Econ Ministry's workshop pointed out the importance of other regions. German businessman Peter Mayr, who has dealt with the Iraqi market for three decades, told firms, "For business purposes, one has to go to the center-south of Iraq" and that a presence in the Kurdish north is insufficient. Maliki's consolidation of power in the most recent elections and the American troop withdrawal plan will boost confidence among German firms that the Ministries in Baghdad are viable partners, according to the German Federation of Industries' (BDI) Director for Africa and the Middle East Steffen Behm.

¶7. (C) German businesses see immediate opportunities, but are limited to pursuing those which do not require an established presence in Iraq for the time being. Although Behm did not believe the current market conditions would support large-scale German investment in Iraq, he expected that exporters of machine tools, construction materials and perhaps full assembly plants would be the first to capitalize on improving conditions. He said he privately estimated that German exports could reach up to 1 billion euros annually within five to 10 years. Industry contacts do not believe Iraq's natural gas could support the Nabucco project in the near-term due to infrastructure challenges.

COMMENT

¶8. (C) The joint willingness of Steinmeier and zu Guttenberg to encourage business ties is a promising sign. German business sentiment is growing markedly more positive toward doing business in Iraq. Industry indicates that more detailed information about the security conditions and the openness of the procurement process to non-American firms would assist them in assessing their re-engagement in Iraq.

Koenig